

# EXCEPTION



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OPEN MEETING AGENDA ITEM

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BEFORE THE ARIZONA CORPORATION COMMISSION

2014 DEC 12 P 12: 54

COMMISSIONERS

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AZ CORP COMMISSION  
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Arizona Corporation Commission

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DEC 12 2014

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IN THE MATTER OF THE APPLICATION OF  
ARIZONA PUBLIC SERVICE COMPANY FOR A  
HEARING TO DETERMINE THE FAIR VALUE OF  
THE UTILITY PROPERTY OF THE COMPANY  
FOR RATEMAKING PURPOSES, TO FIX A JUST  
AND REASONABLE RATE OF RETURN  
THEREON, TO APPROVE RATE SCHEDULES  
DESIGNED TO DEVELOP SUCH RETURN.

Docket No. E-01345A-11-0224

**ARIZONA INVESTMENT  
COUNCIL'S EXCEPTIONS TO  
RECOMMENDED OPINION  
AND ORDER**

The Arizona Investment Council ("AIC") submits these exceptions to the Administrative Law Judge's Recommended Opinion and Order dated December 5, 2014 (the "ROO"). AIC requests that the Commission modify the ROO to approve Arizona Public Service Company's ("APS" or the "Company") request for a Four Corners Rate Rider of \$65.44 million. That result produces a very modest 2.33% rate increase to acquire assets which will continue to benefit all of the Company's customers well into the future.

Initially, AIC notes it does agree with the ROO in three key respects:

- (1) Its rejection of the School Associations' belated and unfounded challenge that the Commission is constitutionally prohibited from approving the Four Corners Rate Rider ("FCRR");<sup>1</sup>
- (2) Its rejection of the Sierra Club's assertion that APS' acquisition of SCE's ownership interest in Four Corners Units 4 and 5 was not prudent. As the ROO

<sup>1</sup> ROO, p. 9, l. 21 - p. 10, l. 8.

1 accurately states, the acquisition "will help assure the continued provision of  
2 reliable and reasonably priced electricity for customers";<sup>2</sup> and

3 (3) Its rejection of RUCO's suggestion that the marginal cost of debt should  
4 be used to calculate the revenue requirement for the FCRR.

5 AIC's disagreement with the ROO concerns its adoption of Staff's position at ROO  
6 pages 30-34 that the fair value rate of return "established in Decision No. 73183 continues to be  
7 appropriate and will result in just and reasonable rates. Accordingly, we will allow recovery of  
8 \$57.05 million via the FCRR."

9 As AIC President and former Utilities Division Director Gary Yaquinto explained in his  
10 surrebuttal testimony:

11 This is incorrect, because the fair value rate of return used by Staff reflects  
12 a blended rate, which combines the weighted cost of capital of 8.33 percent on  
13 OCRB with the much lower rate of 1 percent on the "incremental fair value rate  
base," which takes into consideration the replacement value for the assets to  
arrive at FVROR.

14 \*\*\*

15 Decision No. 73183 [the last APS rate case decision] was kept open for the  
16 express purpose of including the costs related to APS' acquisition of SCE's share  
17 of Four Corners Units 4 and 5. Accordingly, these assets should be included in  
18 rate base as if they were part of that original rate case. This means the same  
weighted cost of capital for Units 4 and 5 should be used as was applied in the  
rate case for the Company's total original cost rate base.<sup>3</sup>

19 As Mr. Yaquinto states, the Commission left this case open to consider the rate base and  
20 expense effects of acquiring the Four Corners assets. One of the primary reasons for doing that  
21 was to sustain APS' financial health, as well as its ability to continue to attract necessary capital,  
22 over an extended four-year rate case stay-out. Obviously, the relief granted in this proceeding

23 <sup>2</sup> ROO, p. 19, ll. 23-24.

24 <sup>3</sup> Yaquinto Surrebuttal Testimony, p. 5, ll. 6-9 and p. 6, ll. 9-14.

1 needs to be sufficient for that goal of both the Commission and the Settling Parties—RUCO and  
2 Staff among them—to be realized.

3 In order to meet the twin goals of rates moderation and sufficiency, AIC asks that the  
4 Commission enter its Order modifying the ROO and approving APS' request for an FCRR of  
5 \$65.44 million.

6 RESPECTFULLY SUBMITTED this 12<sup>th</sup> day of December, 2014.

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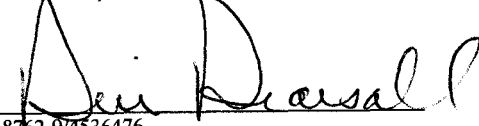
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